

King County Purchasing Practices

Report No. 95-02 -- Report Summary

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INTRODUCTION AND BACKGROUND

The management audit of King County Purchasing Practices and Supply Contract Prices was included in the Auditor's Office 1994 work program.

The Purchasing Agency is located within the Department of Executive Administration. At the time of the audit, the Purchasing Agency was staffed by 22.5 full-time equivalent staff. The Purchasing Office Supply Store ("Stores") conducts centralized purchasing of office supplies for County agencies.

OBJECTIVE AND SCOPE

The objective of the audit was to review purchasing practices and determine if the County consistently pays reasonable and competitive prices for goods, including the prices charged by the Purchasing Agency Office Supply Store.

SUMMARY STATEMENT OF FINDINGS

The general conclusion of the audit was that the majority (71%) of the contracts reviewed obtained competitive prices and advantageous contract terms. However, other contracts

reviewed had poor prices, due primarily to the County's failure to monitor those contracts and to the low number of bids received. The audit also found that the Purchasing Supply Store offered competitive prices on the majority of sample office supplies.

MAJOR FINDINGS AND RECOMMENDATIONS

Finding II-A. Seventy-one percent of sample contracts obtained competitive prices.

Fifteen of the 21 (71%) contracts reviewed obtained competitive prices on the majority of sample items. The contracts also obtained favorable terms, including warranty and delivery terms, and helped to establish reliable stocks of necessary goods.

Finding II-B. Other contracts had higher prices than prices available from outside vendors.

However, the County paid significantly higher prices on two contracts, for lumber and for hardware, than prices offered by other vendors. The pricing and benefits of four other contracts also appeared questionable, although there were limitations in the price comparisons (e.g., differences in services and delivery terms). Two major reasons for the poor prices appeared to be the failure to monitor contract prices and the low number of bids received.

Finding II-C. County agencies were not monitoring prices on some contracts.

County agencies were paying invoices for some contracts without any documentation that the prices were correct. Specifically, prices had been increased for five blanket contracts of the 21 contracts reviewed, but the County had not received written notice of the increases as required by the contracts. Furthermore, the Purchasing Agency had extended these contracts beyond the initial contract period without obtaining updated price lists. Thus, the County was not holding vendors accountable for their prices or ensuring that they adhered to contract provisions.

One factor in the failure to monitor contract prices was that the responsibility for contracts was split between Purchasing and user agencies. The bid process was centralized through the Purchasing Agency, and the vendor files in Purchasing were the central location for contract information. Once the contract was awarded, however, user agencies were responsible for receiving invoices and monitoring prices. Thus, Purchasing was "out of the loop" once a contract was awarded, and relied on user agencies and vendors to notify them of price increases.

The audit recommended that County agencies routinely monitor a sample of invoices to verify that prices are correct. *The audit also recommended* that the Purchasing Agency check with the vendor and the user agencies when contracts are extended to verify that current contract prices are on file.

Finding II-D. The County did not have discount schedules to monitor prices of non-bid list items.

Discount schedules and price catalogs, which contained the prices for any items not listed on bids, were required from vendors as part of their bid. This was important because many or most items purchased off some blanket contracts were not bid list items. However, audit staff were unable to find required price lists or discount schedules in Purchasing files, and user agencies also had not received them. Without schedules and/or catalogs, user agencies did not have adequate information to verify that prices for non-bid list items were correct.

Finding II-E. Some contracts were not awarded on the basis of the county's actual needs.

While many items purchased from blanket contracts were not bid list items, bids were evaluated based on the lowest bid list total amount. The resulting contracts had therefore not been awarded on the basis of the County's actual needs. The discount offered by the vendor should have been included in the bid evaluation to obtain the lowest prices on all goods purchased from the contracts.

The audit recommended that the Purchasing Agency incorporate discount schedules in all ITBs for blanket contracts used to purchase non-bid list items, and include the amount of discount as a factor in evaluating bids. The Purchasing Agency, in conjunction with user agencies, should also request usage reports from vendors to develop more accurate bid lists.

Finding II-F. Fewer than three bids were received for some contracts.

Only one or two bids were received for eight of the 21 (38%) contracts reviewed, although Invitations-to-Bid were sent to at least three vendors. While there may have been some reason why some ITBs received fewer bids, ITBs for common items should have received enough bids to ensure a competitive bid process. There were several possibilities why vendors did not respond:

- some ITBs contained specifications that were overly restrictive;
- the language in some ITBs was outdated or inconsistent with industry standards; and
- the potential worth of the contract was understated in the ITB.

The audit recommended that the Purchasing Agency: develop a brief "no-bid" form so that firms can explain why they are not bidding on a particular contract; review all ITBs for any specifications that appear unduly restrictive; increase opportunities for feedback from bidders and vendors with the County; and include language in all ITBs indicating the amount paid out on the previous contract(s).

Finding II-G. Stores offered competitive prices on the majority of sample office supplies.

Purchasing Stores offered competitive prices on the majority of sample office supplies. Stores' prices averaged 10% and 16% lower than prices available from the two office supply firms selected for the price comparison.

Finding III-A. The County was losing prompt payment discounts by not paying invoices in time.

The County was not paying many invoices in time to take prompt payment discounts offered by vendors. The major delay occurred between the time that the user agency received the invoice and when it was forwarded to the Office of Financial Management for payment, because when agencies received numerous invoices from one vendor, they waited to "batch" the invoices with one payment voucher. The additional costs of processing more vouchers needed to be weighed against the savings from the prompt payment discount.

The audit recommended that the Executive branch set criteria (e.g., a dollar threshold per invoice) specifying when agencies should process invoices immediately in order to take prompt payment discounts, based on the costs of processing payments to vendors. The Purchasing Agency, in conjunction with user agencies, should also evaluate contracts based on these criteria and on patterns of usage to determine which ITBs should include prompt payment discounts in calculating the low bid.

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